The Marxist Approach to the Analysis of a Capitalist Economy (With Some Comparisons)

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Historical Materialism I

- Most general formulation:
  - take any historically given set of circumstances
    - against this background, human activity takes place
    - this activity
      - is purposive (undertaken with some end in mind)
      - occurs in combination with others (whether cooperatively or coercively)
      - is productive (produces something, whether material or immaterial)
  - this activity thereby alters the environment in which it occurs
  - this alters the producers themselves
- How people combine with others called relations of production
  - determined by prevailing pattern of property relations
  - are class relations
- Production possibilities called forces of production
  - determined by prevailing patterns of knowledge, structured by science and its applications through innovation to technology

Historical Materialism II

- Any particular combination of relations and forces of production called a mode of production
  - mutual co-existence/determination
    - what forces of production are possible is determined by prevailing relations of production
    - what relations of production exist is determined by forces of production
- Dynamics
  - forces of production developed under prevailing relations of production
  - being property relations, relations of production are conservative and slow to change
  - forces of production less static and have potential for rapid development
- Determination through ‘contradiction’
  - when dynamic forces of production are systemically constrained by static relations of production, strains develop
  - unless resolved somehow, these strains worsen until there is a revolution which transforms property relations so that
    - they are more appropriate to prevailing forces of production
    - forces of production can be developed further

Historical Materialism III

- Legal and political forms, and forms of social consciousness all determined by patterns of forces and relations of production
- Modes of production generally called after prevailing relations of production, patterns of ownership defining classes
  - slave mode of production
    - private property in people (and nonlabour means of production)
  - feudal mode of production
    - private property in land (and nonlabour means of production, but not people)
  - capitalist mode of production
    - private property in nonlabour means of production (and land, but not people)
  - communist mode of production
    - no private property (means of production held communally)

Structure of Knowledge

- Basic elements: abstractions or determinations
  - ways of talking about aspects of reality
    - but separated from and purified of whole complex of factors that make up a concrete instance
  - Marx
    - purpose: to understand historical specificity of CMP
    - abstractions: value, labour, money, commodity
  - cf neoclassical economics
    - purpose: to explain resource allocation in any society
    - abstractions: preferences, technology, endowments
  - cf Post-Keynesian economics
    - purpose: to explain causes and consequences of growth in capitalist economies
    - abstractions: empirically-based behavioural relationships in specific institutional contexts in real historical time

Basic Structure of Marx's Theory

- Consider societies in which production is organised through exchange
- Special laws (fundamental determinations/abstractions) to do with dual nature of exchanged products (commodities)
  - use-value (like all useful products in any society)
  - value, or power to be exchanged with other commodities; appears as exchange-value (price)
    - source of value is labour
      - labour theory of value (LTV)
    - appears in the form of money
      - value separated from any particular commodity

- Important to understand precisely what this means

Adam Smith

- Crucial feature of society
  - mobility of producers
- Long run level of price
  - determined through competition among producers
  - equalizes rate of return across all activities
  - called the ‘natural price’, a long run equilibrium price
  - different from ‘market price’
    - day-to-day fluctuations caused by all sorts of ephemeral and contingent factors
  - essentially postulate of **‘capitalist law of exchange’**
- Problem of the ‘theory of value’
  - determination of the natural prices of commodities

Smith and the LTV

- "Early and rude state of society"
  - "precedes both the accumulation of stock [Smith's technical term for non-labour inputs] and the appropriation of land"
  - 'mobility' of labour presumed
- Natural prices determined primarily by labour hours required for production of each commodity
  - an embodied labour theory of value
  - a primitive **"commodity law of exchange"**
  - relative prices determined by embodied labour ratios
- For individual commodity:

  price = value (embodied labour) ÷ value of money

  - note: value of money is a conversion coefficient (more later)

Smith and Capitalism

- Suppose organization of hunting process takes capitalist form
  - capitalists hire hunters
  - capitalists supply hunters with hunting implements
  - capitalists pay owners of private land for access to land
  - capitalists sell products of hunters

- Then Smith's simple LTV doesn't work
  - revenues from production have to cover
    - wages for hunters
    - capitalist requires a return on capital (invested in both labour and non-labour inputs): profit
    - landlord requires a return on ownership of land: rent

- So Smith abandoned his labour embodied theory of value

Smith's Second Theory of Price

- In its place: an adding-up theory
  - natural price of commodities explained by adding up labour costs, land costs, and capital costs
    - these costs evaluated at natural wage, rent, and profit levels
- Requires an independent determination of natural wage, rent and profit levels
  - but no such independent theory in Smith
    - never managed to work out a natural price interpretation of rent, wages and profit
- Hence adding-up theory enmeshed in circularity
  - prices determined by costs
  - costs are prices

Prices and Invisible Hand

- Smith was very clear that differences between market price and natural price entailed quantity adjustments
  - account of market price fluctuations around levels determined by natural prices
- *Invisible hand* process was one of
  - continual adjustment towards an equalized rate of profit
  - continual displacement as technology and demand evolved
- Hence endless arbitrage process
- Natural price in effect the value substance underpinning market price
  - but once Smith had abandoned his embodied labour theory of value, he had no satisfactory theory of natural price levels

Genealogies of Price

- Smith’s two theories of price were the ancestral foundations of all subsequent theories of price

- Smith’s immediate successors focused on developing his embodied labour theory of value
  - classical tradition (Ricardo and Marx)
    - labour theory of value
    - surplus-based theory of value

- Contemporary mainstream economics traces its genealogy back to Smith’s adding-up theory
  - neoclassical tradition (1870s ‘marginalist revolution’)
    - theory of value based on demand and supply with given preferences, endowments and technology

Ricardo's Generalisation

- Smith's couldn't apply LTV to a capitalist economy with means of production
- Ricardo generalised Smith's LTV to an economy in which 'stock' had been accumulated
  - prices were determined by

    labour actually performed (direct or living labour)

    \+ labour embodied in nonlabour inputs (indirect or dead labour)
  - assumed that different types of labour (skills, intensities of work) could all be reduced to common standard unit
    - paid little attention to how this might be done
- So "commodity law of exchange" applied to capitalist economy
  - relative prices determined by embodied labour ratios
  - for individual commodity:

    price = value (embodied labour) ÷ value of money

Ricardo’s Problem

- Not logically possible to
  - determine prices by embodied labour

  and
  - to consider these prices as the ‘natural prices’ at which profit rates were competitively equalised

Why Not?

- Imagine two competing firms (A and B) producing same commodity, each investing the same amount of £ in total
  – A: labour intensive - lots of labour and few non-labour inputs
  – B: mechanised - not much labour and lots of non-labour inputs
- From the same investment, according to the LTV
  – firm A will produce lots of new value
  – firm B will produce not much value
- Since they are producing the same output, competition will ensure the price will be the same
- But then they cannot be earning the same rate of profit (profit/investment)
- That is not how capitalist competition works
  – competition (tendentially) equalises rate of profit
  – can only happen through transfers of value in exchange
    - in equilibrium, A's price must be less than value, and firm B's greater
    - hence for individual commodity, unequal exchange is the norm

Marx's Corrections of Ricardo

- Ricardo's LTV: source of value of a commodity produced is the labour expended in producing it
- Marx refines concept of labour
  - labour that produces value is
    - abstract rather than concrete
    - simple rather than compound
    - social rather than private
    - necessary rather than wasted
  - homogeneity of commodities as exchange-values reflects fact that production of any commodity requires a certain fraction of the total (abstract, simple, social, necessary) labour-time of society
    - exchange-value represents an amount of homogeneous social labour-time (abstract labour)
    - abstract labour appears as exchange-value (form of value)
- Since prices expressed in £, money expresses abstract labour
  - theory of value, theory of price, theory of money inseparable

Conservation of Value

- Fundamental determinations show themselves in aggregate or average behaviour of system
  - often appear as conservation principles applying to whole system
- Marx's LTV: in whole system value is
  - produced by labour
  - conserved in exchange
- $\Rightarrow$ factors governing production of value are not the same as those governing its distribution
  - capitalist competition (tendentially) equalises rate of profit
  - this can only happen through transfers of value in exchange
  - hence for individual commodity, unequal exchange is the norm
  - conservation of value added in the aggregate ensures all unequal exchanges sum to zero

Aggregate Value Added I

- LTV applies to aggregate production of commodities (or the average commodity), and not to each particular commodity
    - PK similar in its emphasis on aggregates
    - neoC quite different: macro must always be derived from micro
  - net output evaluated in money terms is $\boldsymbol{py}$,
  - net output evaluated in value terms is $\boldsymbol{\lambda y}$ (= H)
    - value of net output is determined by total hours worked to produce y
    - hence $\boldsymbol{\lambda y}$ is denominated in hours (of SNLT)

- Conservation principle:
  - $\boldsymbol{py}$ and H are two ways of expressing the same thing
    - because they are the same, we can equate them
    - but since one is in £ and the other is in hours, we need something that converts hours into money

Aggregate Value Added II

- For aggregate value added

price (£ per unit) =

value (hrs per unit) ÷ "value of money" (hrs per £)

$$\boldsymbol{py} = \frac{\boldsymbol{\lambda y}}{\lambda_m}$$

or

price (£ per unit) =

value (hrs per unit) × "monetary equivalent of labour-time" (MELT, in £ per hr)

$$\boldsymbol{py} = \boldsymbol{\lambda y} \times MELT$$

Obviously "value of money" = 1 ÷ MELT

Aggregate Value Added III

- Conservation principle: $\boldsymbol{py} = \boldsymbol{\lambda y}$ * MELT

- Rearrange to *define* the MELT:

  MELT = $\boldsymbol{py} \div \boldsymbol{\lambda y}$ (expresses £ per hour)

- Sometimes more convenient to work with inverse of the MELT

  1 ÷ MELT = $\boldsymbol{\lambda y} \div \boldsymbol{py}$ (expresses hours per £)

  The inverse of the MELT is defined as "the value of money": λ_m

  Hence $\lambda_m = \boldsymbol{\lambda y} \div \boldsymbol{py}$

- Conservation principle: $\boldsymbol{py} = \boldsymbol{\lambda y} \div \lambda_m$
  - *note this is classical LTV, but for aggregate value added, not the individual commodity*

Two Questions

- USA 2010:

  py = \$9,876.4 billions

  H = 99,329 million hours

$$py = \lambda y \frac{1}{\lambda_m} = H \frac{1}{\lambda_m}$$

$$(9{,}876.4) * 1000 = 99{,}329 \frac{1}{\lambda_m}$$

- How much value in \$ does 1 hour of labour-time create?
  - ie: what is the "monetary equivalent of labour-time" (MELT)?

$$\text{MELT} = \frac{py}{\lambda y} = \frac{py}{H} = \frac{(9{,}876.4) * 1{,}000}{99{,}329} \approx \$99.4 \text{ per hour}$$

- How much labour-time does \$1 represent?
  - ie: what is the "value of money"?

$$\lambda_m = \frac{\lambda y}{py} = \frac{H}{py} = \frac{99{,}329}{(9{,}876.4) * 1{,}000} \approx 0.0101 \text{ hours per } \$ = 32.6 \text{ seconds per } \$$$

Marx's Exposition

- Marx begins with a commodity theory of value

  p_i = unit price of commodity i

  λ_i = unit value of commodity i

  λ_m = unit value of unit of commodity money (eg gold)

  Then $$p_i = \lambda_i \frac{1}{\lambda_m}$$

- Interpretation
  - expresses how system as a whole works
  - not to be taken literally as true for each and every commodity
  - don't need a commodity-money
- Question: where do profits come from? what determines their size?

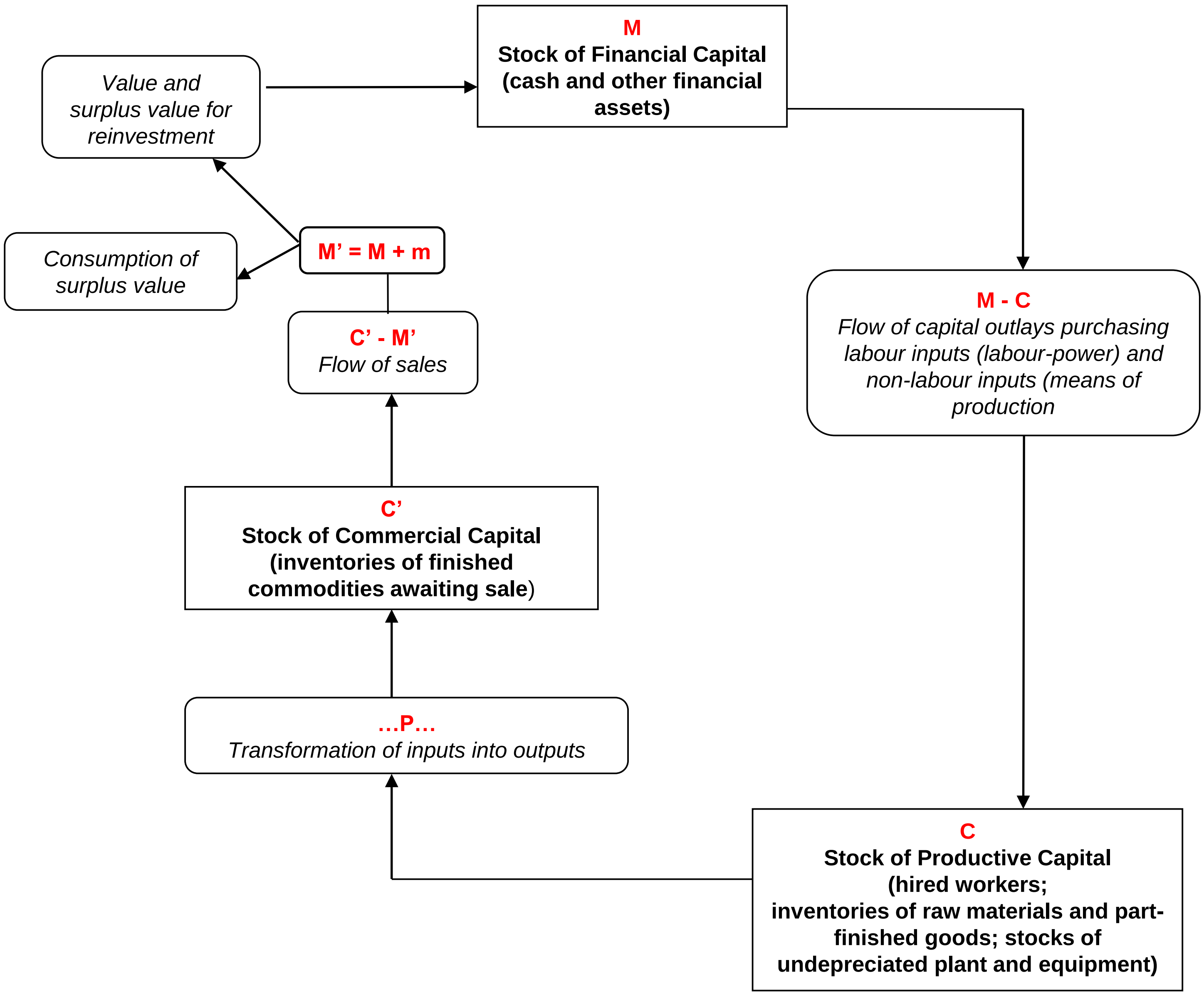
Origin of Profit I

- Capitalist firms operate to make a profit
  - sell commodities for more £ than they pay for inputs to produce them
  - over whole system, appropriate a surplus-value
  - can LTV explain this?
- C – M – C'
  - imagine a system of independent producers
  - C and C' are different use-values
  - one-off process that ends with consumption of desired use-values
  - in value terms C = C'
    - if one producer succeeds in buying cheap and selling dear, so that in value terms C' > C, some other producer has lost out. In aggregate no social surplus-value
  - no systemic process of accumulation; hence not capitalism

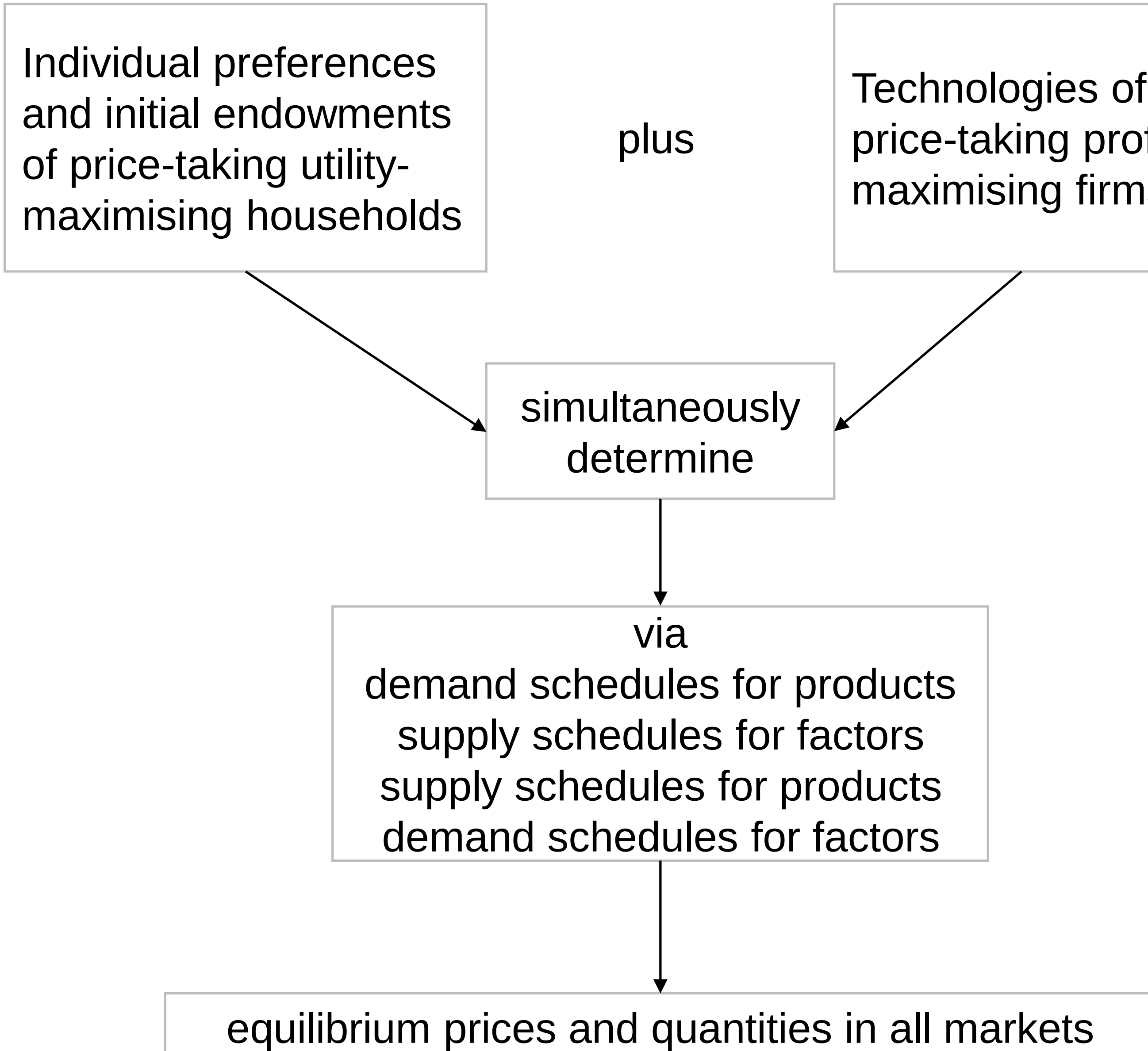
Origin of Profit II

- M – C – M': money that makes more money: capital
- M – C{lp, mp}…..P…..C' – M' = M + ΔM circuit of capital
  - capitalist production as we observe it
  - M and M' are identical use-values
  - M and M' are different values: ΔM = surplus-value
  - process recreates its initial conditions, hence repeats indefinitely
  - conservation of value in exchange ⇒ change in value occurs in P ⇒ there is some commodity that has the power of creating value as it is used up, and more value than it itself possesses
  - this value-creating commodity is the capacity of workers to do useful work; ie labour-power
  - capitalist purchases labour-power at its value for a wage
    - on an individual level, no injustice, no cheating, no fraud: worker is paid full value for the commodity she sells
    - but worker has no claim to any part of product or value of product, because that belongs to the capitalist

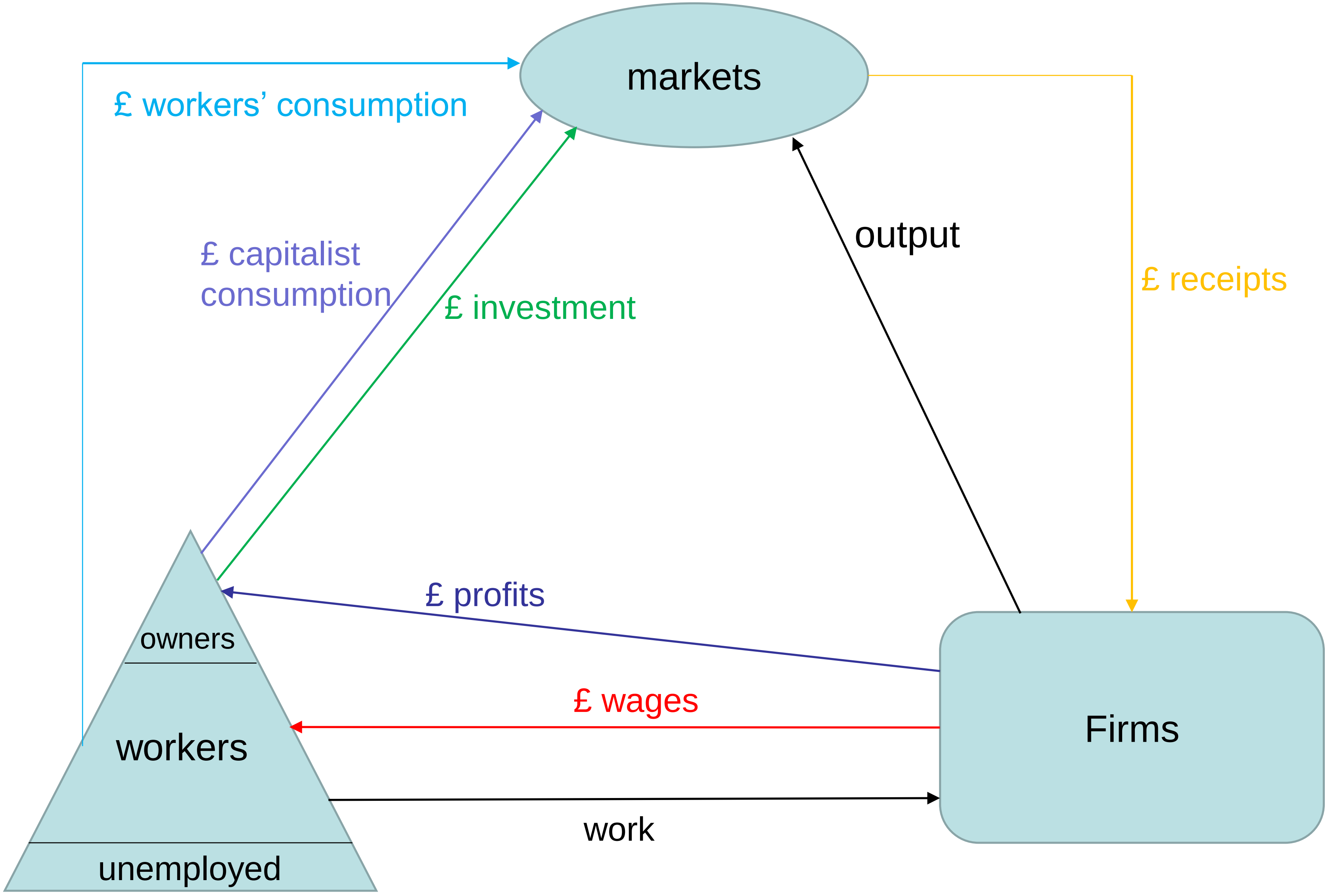
The Circuit of Capital



Cf: Neoclassical Economics



Cf: Post-Keynesian Economics



Origin of Profit III

- Historical conditions for emergence of LP as commodity: 2-fold liberation
  - worker must be free to sell LP, not tied to particular labour process (feudalism) or to particular master (slavery). Hence historical destruction of previous modes of production
  - worker must be 'freed' from access to means of production that would allow her not to sell her LP but to produce a commodity she could sell. Hence worker
    - cannot exercise LP on her own behalf
    - is therefore forced to sell LP to gain £ to access consumer goods
- Most important aspect of this process
  - displacement of peasants from traditional access to land
    - enclosures
    - land reforms
    - green revolutions etc

Labour-Power I

- A peculiar commodity
  - an aspect of human beings
  - not produced in a capitalist-organised production process
  - reproduced outside of capitalist relations
  - so considerations of unequal exchange (forced by competitive equalisation of rate of profit) do not apply
  - so basic formula applies: price = value ÷ value of money

$$w\,(\text{per hour}) = \frac{vlp\,(\text{per hour of labour hired})}{\lambda_{\text{m}}}$$

$$vlp = w\lambda_m$$

- USA 2010

  w = \$25.06; so vlp = (25.06)*(0.0101) ≈ 0.25

  so for each hour of work, worker gets 0.25 of what is produced, and capitalist gets 0.75

Labour-Power II

- USA 2010: for each $ of new value produced, worker gets 25 cents and capitalist 75 cents. Can be put a different way:

$$vlp = w\lambda_m, \text{ and since } \lambda_m = \frac{H}{py}$$

$$vlp = \frac{wH}{py} = \frac{W}{Y}$$

- So vlp measures
  - (productive labour) wage share of net output (0.25, NB not 0.71)
  - proportion of total money value added that the (productive) working class receives in exchange for an hour of collective labour-power
- Net output that is not wages is profit, produced by working class but accruing to capitalist class; hence called surplus-value
  - proportion of net value that working class does not receive is due to exploitation

Labour-Power III

- $w\,(\text{per hour}) = \dfrac{vlp\,(\text{per hour of labour hired})}{\lambda_{\text{m}}}$ so that $vlp = w\lambda_m$
- If value conservation applies to each individual commodity (and if there is no saving out of wages) then

$$\pounds\,(\text{wage - bundle}) = \frac{\text{value of wage - bundle}}{\lambda_{\text{m}}}$$

- Then by substitution $vlp\,(\text{per hour}) = \text{value of wage - bundle (per hour)}$
  – *vlp* = value of wage bundle necessary to (re)produce labour power
- This not generally true: value conservation only applies in aggregate. So
  - vlp = proportion of total money value added that (productive) working class receives in exchange for 1 hour of collective labour-power
    – and wage is determined by
      – subsistence floor
      – ‘moral and historical element’
        » class struggle over construction and implementation of social norms
- All sorts of short-run fluctuations, but in long run issue is cost of maintaining some socially determined standard of living, as proportion of each hour of labour

Constant and Variable Capital

- Capitalist advances capital to buy labour-power (lp) and nonlabour means of production (mp)
- Both necessary, but social significance very different
  - mp
    - value appears unchanged in final product
    - value of mp used up in production and transferred to final product
    - advance of capital to buy mp (value of mp) called constant capital (*c*)
      - constant, because its value does not change
  - lp
    - vlp consumed in production process
    - process of consumption by capitalist is performance of labour in a production process, labour producing (per hour)
      - value equivalent to vlp
      - surplus-value, so that value of labour > vlp
    - advance to purchase lp called variable capital (*v*)
      - variable, because more value is created since value of labour > vlp

Surplus-value and Unpaid Labour I

- Metaphor: whole of social labour time = "working day" =
  - no. of hours of social labour expended in production
  - total value added in time
  - total value added in terms of money (conservation principle)
- vlp represents less than 1 hour of social labour time equivalent, received by workers, per hour of labour expended
- So vlp divides working day
  - as time into paid and unpaid labour
  - as £value added into wages and profit

Capitalist labour time

Paid labour time	Unpaid labour time	Working day
Wages (variable capital)	Profits (surplus value)	Value added
Necessary labour	Surplus labour	Reproduction

vlp

Surplus-value and Unpaid Labour II

- Surplus-value (profit, interest, rent) = unpaid labour time
- Extraction of surplus labour = exploitation
  - characteristic of all class societies
  - class societies differ only with respect to the form that this extraction takes (slavery, feudal, capitalist)
- In capitalism, ratio between the 2 parts of the working day is the rate of surplus-value (or rate of exploitation)

- Exploitation does *not* mean workers work some hours for zero wages
  - every hour of labour-power is paid for
    - worker receives hourly vlp (whether for 1st or last hour of the day)
  - but not every hour of labour is paid for
    - because workers produce more than the value of their labour-power in each hour that they work
- Wage labour form obscures what is happening

Surplus-value and Unpaid Labour III

- Could exploitation be ended by a sufficient rise in wages?
  - if v/p = 1, all value added accrues to labour and no surplus-value
    - certainly no capitalists
    - but no surplus product either
  - nothing for
    - investment
      - expansion of productive resources
    - social needs
      - healthcare, education, pensions, care of young, old, disabled etc
- Any society (of any interest) has to produce a surplus product
  - issue is the way in which it is produced and distributed: class exploitation vs. democratic control by the direct producers
- Much polemic by Marx on need to end wages system rather than increase wages
  - ending exploitation ↔ ending wage labour form of production

Surplus-value and Unpaid Labour IV

- Wage labour form obscures what is happening

- Ratio between the 2 parts of the working day is the rate of surplus-value or rate of exploitation (*e)*

- USA 2010:
- $e = 0.75 \div 0.25 = 3$

Obviously $vlp < 1 \Leftrightarrow e > 1$

and

$$e = \frac{1 - vlp}{vlp} = \frac{\text{Total profits}}{\text{Total (productive) wages}}$$

Surplus-value and Unpaid Labour V

- Commodity relations are not in fact the only processes in the reproduction of capitalist society
- Important part of social reproduction lies outside capitalist relations of production
  - developed societies:
    - household production and domestic labour
    - social consumption
  - less developed societies: traditional peasant production
- Hence modify Marx’s division of working day

Social labour time

Non-wage labour	Wage labour		Working day
	Paid labour time	Unpaid labour time	
	Wages (variable capital)	Profits (surplus value)	Value added
Necessary labour		Surplus labour	Reproduction

vlp

Summary So Far

- In aggregate, value is conserved in exchange
- Not true for any individual commodity, except labour-power
- Labour-power a commodity when
  - workers free to sell their lp
  - workers have no access to mp
- Labour-power: what capitalists purchase
- Labour: what capitalists receive
- Surplus-value the result of exploitation
  - workers work more hours than they receive an equivalent for in form of wage
    - because they are paid for their labour-power, not their labour
- Apparent equality of all in the market conceals private appropriation of social surplus product by particular class
  - form of this exploitation (selling of labour-power for a wage) is the specific characteristic of capitalist production

Summary So Far II

- Rest of Marx's work:
  - application of this theory to explain actual phenomena of capitalist development
  - how does capital produce surplus-value?
    - focus on production process
  - how does surplus-value produce capital?
    - focus on reproduction and accumulation
  - how is surplus-value distributed as industrial profit, interest and rent?

Absolute and Relative Surplus-value

- Amount of surplus-value depends on
  - total social labour time
  - partitioning of that time between paid and unpaid labour (determined by vlp)
- To increase social surplus-value
  - increase total social labour time, holding paid labour time constant
    - called absolute surplus-value
      - capitalists seek to maximise unpaid labour time for a given wage
  - reduce that part of total social labour time that is paid, holding total labour time constant
    - called relative surplus-value

Absolute Surplus-value I

Capitalist labour time

Paid labour time	Unpaid labour time	→	Working day
Wages (variable capital)	Profits (surplus value)	→	Value added
Necessary labour	Surplus labour	→	Reproduction

vlp

- Forms of absolute surplus-value
  - lengthen working day
    - workers' resistance
      - depends on bargaining power and worker solidarity
      - class struggle over length of working day → growth of trade unions
    - eventually limited by state regulation
    - pervasive tendency of early stages of capitalism
      - especially whenever/wherever workers' ability to resist is weak
        - » newly industrialising countries

Absolute Surplus-value II

Capitalist labour time

Paid labour time	Unpaid labour time	→	Working day
Wages (variable capital)	Profits (surplus value)	→	Value added
Necessary labour	Surplus labour	→	Reproduction

vlp

- Forms of absolute surplus-value
  - fill in ‘holes’ in working day
    - continued pressure to reduce unproductive periods within given working day
      - coffee/tea breaks
      - informal socialising
      - rest periods
      - lunch breaks

Absolute Surplus-value III

Capitalist labour time

Paid labour time	Unpaid labour time	→	Working day
Wages (variable capital)	Profits (surplus value)	→	Value added
Necessary labour	Surplus labour	→	Reproduction

vlp

- Forms of absolute surplus-value
  - family labour
    - employing women and children gets a more than proportionate increase in social labour time relative to payment of wage
      - bargain between male unions and male employers
        - » restrictions on employment of women and children to protect family
      - ‘protective’ legislation later dismantled
        - » important source of sexual inequality eliminated
        - » pressures to expand social labour time supplied by family
        - » emergence of 2-income family as social norm

Relative Surplus-value I

	←		
Paid labour time	←	Unpaid labour time	Working day
Wages (variable capital)	←	Profits (surplus value)	Value added
Necessary labour	←	Surplus labour	Reproduction
	←		

vlp

- *vlp* regulated by (socially necessary) labour-time required to produce commodities in average standard of living
  - reduction in snlt required to produce these commodities reduces *vlp* and increases *e*
  - doesn't mean wages fall
    - Fordism: conscious choice of US capitalists in early 20C to increase wages (and hence workers' standard of living) in newly developed continuous line processes (Henry Ford at Dearborn, MI)
      - purpose: to create a mass market for consumer durables
      - because productivity increases > wage increases, *e* increased
- Production of relative surplus-value typical of 'mature' capitalism

Relative Surplus-value II

- Capitalist production inherently dynamic as new methods of production developed and older ones scrapped
- Why? Competition as war fought through productivity rises
  - innovation (often involving larger scale of production) enables more use-values to be produced in given period of time
  - in given period of time, total value produced is constant
  - so value of each individual use-value falls
  - innovating capitalist can
    - undercut rivals and expand market share
    - gain extra profits through unequal exchange until innovation generalised across competitors
- Cost-reducing innovations can be applied in any area of production and to any costs
- Marx paid particular attention to labour-saving innovations

Dynamism of Capitalism

- Main motive: pursuit of surplus-value
  - absolute surplus-value: extracting more labour with constant wage
  - relative surplus-value: war of competition through innovation;
    - by-product → cost of workers’ consumption reduced
- Innovation is means by which forces of production developed
- But class conflict over wages, length of working day, work intensity, health and safety of work environment
- Capitalist needs to maintain control over pace and intensity of work
  - innovations that sacrifice control are problematic
  - most successful innovations are those that
    - increase productivity
    - maintain/increase surveillance and control over labour process
- So forces of production developed by specific capitalist relations of production

Character of Capitalist Production

- Understanding how capitalism works:
  - exploitation: source of surplus value is exploitation of workers
  - reproduction: circuit of capital as mode of reproduction
  - expansion (accumulation): effects of technical progress
- Capitalism is a technically progressive mode of production
    - earlier class societies did not have systematic technical change
    - only capitalism constantly revolutionises its methods of production
- Technical progressivity: production of relative surplus-value
  - continual drive for innovation to give competitive edge
  - innovation is typically labour-saving and means-of-production-using
      - at a given scale: implies displacement of labour from production
      - dynamism and expansion: absorption of that labour in expanded production
    - hence sense in which capitalism creates its own labour supply

Summary

- Characteristic pattern of dev’t of capitalist society
  - rising labour productivity
  - rising real wages, but at a slower rate
  - hence rising rate of surplus value
  - falling proportion of capital outlays devoted to wages

- This historical pattern of change is not accidental or random, but a systematic effect of capital accumulation, through its technical progressivity
  - potentialities of forces of production outstrip relations of production
  - expressed in recurring crises
    - anarchy of market (disproportionalities)
    - underconsumption (problems of aggregate demand)
    - overproduction (expressed in movements of rate of profit)

Some Comparisons I

- Individuals
  - M: materialist; bearers of class relations; macro not micro
  - PK: endogenous preferences; macro not micro
  - NeoC: idealist; exogenous preferences arising out of human nature; micro not macro
- Money
  - M: adjusts to whatever is required to circulate output
  - PK: aggregate demand $\rightarrow$ loans $\rightarrow$ money creation; validated by state authority
  - NeoC: no money
- Prices
  - M: war of competition; represent amounts of labour-time; but variable (unequal exchange)
  - PK: monopolistic markets with mark-up pricing; some equilibrium methodology
  - NeoC: competitive markets and equilibrium

Some Comparisons II

- Wage rate
  - M: class struggle over what is acceptable standard of living
  - PK: divergences from marginal product of labour due to monopolistic elements in segmented labour markets
  - NeoC: marginal product of labour
- Profit rate
  - M: central; movement determined by profit share and technical change
  - PK: profit share (not rate) central
  - NeoC: of no relevance
- Interest rate
  - M: interest = part of surplus-value; rate formed by bargaining between lenders and borrowers
  - PK: short rate determined by central bank; longer rates up yield curve determined by liquidity preference
  - NeoC: equality of subjective rate of time preference and own rate of return

Some Comparisons III

- Investment and saving
  - M: rate of profit $\rightarrow$ investment $\rightarrow$ accumulation
  - PK: animal spirits $\rightarrow$ investment $\rightarrow$ aggregate demand $\rightarrow$ saving, but positive feedback loops from aggregate demand and uncertainty to animal spirits
  - NeoC: subjective rate of time preference $\rightarrow$ saving $\rightarrow$ investment

- State
  - M: represents interests of dominant class; some (but little) autonomy
  - PK: referee between competing interest groups; market failure more important than state failure
  - NeoC: essential for (external and internal) law and order, and monetary system; otherwise should be minimised; state failure more important than market failure

Some Comparisons IV

- Economic policy
  - M: because state is class state, notion of policy improvement not very coherent; anything that advances interests of working class is desirable; notion of transitional demands; reform vs revolution: increase in wages or abolition of wages system? Key questions: who owns and controls the bakery? How can these property relations be changed?
  - PK: policy generally aimed at boosting aggregate demand and growth; typically wage-led. Key questions: who gets how much bread? How can bread output be increased to satisfy competing demands of wage-earners and profit-earners?
  - NeoC: any policy in Pareto-superior direction is desirable, but acute problems of identification (second-best theory); hence bias in favour of less regulated markets because of state failure; "all is for the best in this the best of all possible worlds". Key questions: given preferences for bread, endowments of bread and technology of baking [and preferences, endowments and technologies for all other goods], what is equilibrium price of bread? Can endowments be reallocated to produce a Pareto-superior allocation of bread?